

CAPITAL PLANNING ADVISORY BOARD

Minutes of the 1st Meeting of the 2006 Calendar

May 23, 2006

The 1st meeting of the Capital Planning Advisory Board (CPAB) of the 2006 calendar year was held on Tuesday, May 23, 2006, at 10:00 AM, in Room 218A of the Founders Union Building at the University of Louisville (UL), Shelby Campus in Louisville Kentucky. Senator Jack Westwood, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Jack Westwood, Co-Chair; Representative Rick W Rand, Co-Chair; Representative Ron Crimm; John Hicks; William May; Norma Northern; Laurel True; Garlan Vanhook; and Judge William Wehr.

Guests Appearing before the Board: Larry Owsley, Vice President for Business Affairs, University of Louisville; and Sherron Jackson, Assistant Vice President for Finance, Council on Postsecondary Education.

LRC Staff: Pat Ingram, Nancy Osborne, and Debbie Rodgers.

Senator Westwood welcomed Representative Rick Rand as the new House Co-Chair. He noted that Representative Rand served on the Board in the early 1990s while a member of the state Senate. Senator Westwood also welcomed Mr. John Hicks as the Board's other new member. Mr. Hicks is a long-time staff member of the Governor's Office for Policy and Management and now serves as Deputy State Budget Director.

After providing a brief overview of the composition and responsibilities of the Capital Planning Advisory Board, Senator Westwood said Representative Crimm had suggested this meeting on the Shelby Campus and expressed appreciation for the university's hospitality.

Senator Westwood then recognized Senator Perry Clark who was in attendance today. He said that while serving as the House Chair and Co-Chair of CPAB, then-Representative Clark led the Board in the development of four statewide capital improvements plans and was a strong advocate for the Commonwealth showing good stewardship by maintaining the capital investment funded by taxpayer dollars. Senator Westwood asked CPAB Staff Administrator Pat Ingram to read the resolution that had

been prepared to honor Senator Clark. After it was read, Representative Rand's motion to adopt the resolution was seconded by Ms. Northern and approved by voice vote.

Senator Clark said serving on the Board has been one of his best experiences in Frankfort. He said he has made life-long friends and has met great people with serious concerns and deep appreciation for the assets of the Commonwealth. He also thanked the CPAB staff for their assistance. Senator Clark said while a lot had been accomplished during his time on the Board, remaining to be done is passage of important legislation to establish capital renewal funds for individual buildings. He concluded by expressing his appreciation to the members and thanked them for their service to the Commonwealth.

Representative Rand's motion to approve the minutes of the October 21, 2005 meeting was seconded by Judge Wehr and approved by voice vote.

Senator Westwood said review of the Information Items would be deferred until later in the meeting. He then introduced Mr. Larry Owsley, University of Louisville Vice President for Financial Affairs, to discuss plans for the Shelby Campus.

Mr. Owsley expressed regrets from UL President James Ramsey that, due to a scheduling conflict, he would be unable to meet with the Board today. Mr. Owsley then proceeded to discuss two handouts that had been distributed to the members. The first addressed the "Shelby Campus in the Context of U of L's Agenda and Mandate" and the second addressed the "Shelby Campus Master Plan."

Mr. Owsley said this campus was initially part of Kentucky Southern College. When the college had financial problems in the late 1960s, UL acquired the campus for the outstanding debt on the property. He said over the years UL has considered different ways to use the property.

Mr. Owsley explained that the Postsecondary Education Improvement Act of 1997 mandated the universities to increase economic opportunity and quality of life for the citizens of the Commonwealth and specifically called for UL to become a premier, nationally recognized metropolitan research university. That's means three things relative to UL's capital planning - the need to build an attractive and inviting campus and facilities, the need to build the research enterprise, and the need to provide infrastructure for translational research and economic development spin-offs.

Relative to building an attractive and inviting campus and facilities, Mr. Owsley said UL has focused on increasing the amount of on-campus housing, providing quality support and recreational facilities such as the new library addition and Cardinal Park, addressing transportation and parking infrastructure by providing a shuttle system on the Belknap Campus and building additional garages on the Health Science Campus, and

working toward neighborhood improvement projects such as developing the Reynolds Building into housing units.

Relative to building the research enterprise, Mr. Owsley said over the past five years, UL has either built or planned over \$300 million of research facilities including the Baxter Research Buildings on the Health Science Center campus, research buildings on the Belknap campus, the cardiovascular innovation institute downtown (a joint venture with Jewish Hospital), and the new federally-funded Center for Predictive Medicine being constructed on the Shelby Campus.

Relative to the infrastructure for translational research and economic development spin-offs, Mr. Owsley said this involves the Shelby Campus. He explained that translational research takes ideas that come out of the laboratories and translates them into either clinical applications or commercial activities. To do this requires infrastructure for individuals/researchers to take the idea, develop a business plan, and develop business opportunities. Through an application process, the Kentucky Seed Fund developed by UL and others provides awards of about \$250,000 to be used for the development of business plans. The Midwest based Triathlon Medical Venture Fund can provide venture capital (\$2 million - \$4 million) to be invested in getting the product to market. Mr. Owsley said he hopes that ideas coming from Louisville and the Kentucky Seed Fund will be considered for this venture funding next year. If a company needs a place to locate, UL can provide two opportunities - 1) the downtown bio-medical park, which is a joint venture with Jewish Hospital, Norton's, the City of Louisville, and Jefferson Community College; and 2) the Shelby Campus Business and Technology Park, which can provide a campus-like setting.

Responding to Mr. True's questions, Mr. Owsley said UL's goal is to have 20 percent of the total student body housed on campus. There were 1,300 beds and 1,600 have been added recently. The plan is to do one more major housing project and to renovate the existing facilities, then reassess the housing plan. Relative to the student demographics, Mr. Owsley said ACT scores are improving and there are more full-time and out-of-state students.

Representative Rand asked about the relationship between UL and the recently constructed housing facilities. Mr. Owsley said the facilities are located on UL-owned land, but the bonds were sold by an UL Foundation subsidiary, and they were built and are managed by Allen and O'Hara Construction.

Citing recent experience with his son, Representative Rand noted that the types of dorms available is an important consideration in the college selection process. Mr. Owsley said the preference now is for suites where three or four bedrooms are clustered to share the same bath facilities. Future renovations will upgrade the existing UL dorms to that type of arrangement.

Directing the members' attention to a display map, Mr. Owsley next addressed the master plan for the Shelby Campus. He said the first need is for infrastructure and \$5.8 million is in the state's Road Plan for road work to include aligning the campus entrance with an existing traffic light.

Specific parcels have been identified as locations for businesses that result from UL research efforts. UL has committed to the neighborhood that a lot of green space will be maintained, and there will be height restrictions on buildings. Mr. Owsley said the most significant project underway now is design of the Center for Predictive Medicine for which construction is expected to be completed in 2008. The Center will be a biosafety level 3 lab.

In response to questions from Senator Westwood, Mr. Owsley said UL plans to organize the Shelby Campus park under a separate 501(c)3 corporation, with funds being generated from long-term land leases on the property. UL will not be developing the facilities.

Responding to Mr. True's questions, Mr. Owsley said that rather than full-time students, the Shelby Campus will be populated by researchers and staff working in the business and technology enterprises and by individuals enrolled in continuing education programs.

Mr. Owsley added that renovation of space to house a computer forensics laboratory is underway in an existing building and a private hotel development, which can serve training attendees, is being constructed adjacent to the campus. UL also hopes to upgrade the Founder's Union Building, which houses the continuing education programs.

Mr. Owsley concluded by saying UL takes its economic development mandate seriously and wants to work toward improving the quality of life and creating business opportunities from its research work. He noted that in its efforts at the Shelby Campus UL is competing with a lot of other states and localities, not just other institutions.

Senator Westwood thanked Mr. Owsley for his presentation and said he is very excited about the corporate and university partnerships that are being developed throughout the state.

Mr. Hicks noted that in contrast to recruiting economic development from outside, UL's approach generates economic development from university research and the commercialization of those efforts. Mr. Owsley said the recruitment is done to bring people to the university who will do research that results in commercial spin-offs.

Senator Westwood next asked Ms. Ingram to review the Information Items included in the members' folders. Ms. Ingram said the first item reports the final status of legislation in the 2006 General Assembly that was based on recommendations contained in CPAB's *2006-2012 Statewide Capital Improvements Plan*. All of the bills were sponsored by Senator Westwood. Senate Bill (SB) 83, which passed and was signed by the governor, permits the postsecondary institutions to use in-house labor for projects costing less than \$200,000 each. SB 84, which also passed and was signed by the governor, raises the thresholds for submitting projects in the capital planning and capital budget processes to \$600,000 for construction and information technology systems, and to \$200,000 for equipment items. Senate Concurrent Resolution 95, which called for a study of Kentucky's debt policies and practices, was pending in the Senate State and Local Government Committee when the General Assembly Session ended.

On the second Information Item, which is a list of other enacted capital projects/planning-related legislation, Ms. Ingram pointed out that SB 89 attaches the Northern Kentucky Convention Center to the Commerce Cabinet for administrative purposes. This resolves the problem identified during previous planning processes that this state facility was not attached to a cabinet through which it could submit its six-year capital plan.

Ms. Ingram said the third Information Item is an overview of the capital projects authorizations in the 2006-08 budget. It includes two attachments. The first attachment is a by-agency listing of the projects that were authorized to be financed by either state cash, bonds with general fund debt service, or agency bonds. It also indicates the authorized projects that were recommended by the Board, as well as the authorized projects that had not been submitted through the planning process. The second attachment lists all of the projects recommended by the Board and the status of each relative to the final budget.

Mr. True noted that many more projects were authorized than the Board had recommended and asked whether the Board should have a longer list of recommended projects. Senator Westwood said it might be helpful for the General Assembly to have more information from CPAB as an input to its decision making. Ms. Ingram said as the Board moves into the 2008-2014 planning process, it would probably be helpful to have some discussion about how the project recommendations are to be developed.

The fourth Information Item was a report of the Moody's Investor Service 2006 State Debt Medians. Ms. Ingram said this information is provided to follow-up on the report about Kentucky's bonded indebtedness that is presented to the Board every two years by the LRC Staff Economists' Office.

Ms. Ingram said the final Information Item addresses the 2008-2014 capital planning process and includes a tentative schedule for that process. Mr. Hicks

complimented the Board on the software system that had been developed for the preparation of the agency plans. He noted that the data collected eventually feeds into the capital budgeting process. He said Kentucky is unique among the states he has seen relative to having such a modernized and efficient system to handle the large volume of capital projects data.

Senator Westwood thanked Mr. Hicks for his comments. He then introduced Sherron Jackson, Council on Postsecondary Education (CPE) Vice President for Finance, to provide an overview of the analysis being undertaken to evaluate the condition of the state's postsecondary education facilities.

Mr. Jackson noted that while he was member of this Board, there were often discussions about the need to have consistent information to use in assessing the capital needs of the postsecondary institutions. He said the statewide facilities review now underway will look at the condition of existing space as well as determine needs for new and renovated space relative to meeting the goals of the Postsecondary Education Improvement Act of 1997. These goals include increased student enrollments and high level research activity.

Mr. Jackson said in November 2005, the CPE issued a request for proposals which resulted in the selection of VFA, Inc. of Boston, Massachusetts to conduct the assessment. The \$1.8 million cost will be paid by the institutions based on the amount of square footage reviewed on each campus. The study is to be completed and available to the public in December 2006 in order to be used in the upcoming 2008-2014 capital planning process. In addition to its use in reviewing proposed projects, data from the study will also be available for the statewide facilities database that is mandated by statute to be maintained by the Department for Facilities and Support Services (DFSS). A test will be run with data collected from a demonstration project at Kentucky State University to ensure that it can be appropriately downloaded into the Archibus software used by DFSS. The software used by VFA to collect and analyze the data will be available should any of the institutions wish to purchase it for the ongoing management of their facilities data.

Mr. Jackson said the contractor has also been asked to make recommendations on funding to update existing space and construct new space based on approaches used in other states. Such approaches may include shared responsibilities among the institution, the state, the business community, the federal government, and others. They are also to look at policies for funding depreciation for the purpose of addressing facilities capital renewal/maintenance needs.

In response to a question from Senator Westwood, Mr. Jackson confirmed that the study will address the need for developing an approach to funding capital renewal and maintenance needs. This will be included in the report that will be made available to the

public regarding both the status and condition of facilities, as well as recommendations on funding strategies.

Noting that the study is to address condition of facilities, adequacy of facilities, and funding sources, Senator Westwood asked if any one topic will receive more emphasis than the others. Mr. Jackson said they are interconnected. The availability of condition information will lead to a determination as to whether space should continue to be used and for what purpose(s) it might be used or whether a new facility should be constructed. He noted that Paulin and Associates, which developed a space needs model for Kentucky a few years ago, is updating that model relative to the goals set for postsecondary education for 2020.

When asked by Mr. Vanhook if VFA had done similar studies in other states, Mr. Jackson said VFA did a study in 1999 in North Carolina, which had been viewed favorably by policy makers. He further assured Mr. Vanhook that the data is to be transferable both to the existing Kentucky postsecondary education facilities database maintained by CPE as well as the DFSS-maintained statewide facilities database.

In response to Mr. Vanhook's question about whether the various institutions are supportive of this effort, Mr. Jackson said institutions are supportive and that a workgroup has been established composed of a representative from each. He noted that the contract also allows the institutions to pay a further charge to receive additional services (level 2) from the consultant.

Mr. True said it appears from the information provided that deferred maintenance would only be addressed if an institution pays for the additional services. Mr. Jackson explained that deferred maintenance refers to systems that have outlived the life cycle projected by the manufacturer. He said the work being done under the level 1 services being provided to all institutions will provide data on where a system is within its life cycle so it will also be able to identify those that are beyond their anticipated lifecycle.

Responding to further questions from Mr. True, Mr. Jackson said the contractor will not address whether the institutions have done adequate preventive maintenance or have an appropriate maintenance program in place. He noted that in 1998 CPE established maintenance standards and receives a biennial report from each institution relative to the implementation of those standards. That information is used by the CPE to determine the institutional match that is required when allocating capital renewal pools funded in the biennial budget. The better maintained the facilities are, the lower the required institutional match. Mr. Jackson also noted that in the past CPE has engaged an independent architect who traveled to all of the campuses as part of the capital recommendation review process. Those visits confirmed that the institutions do a very good job of daily facilities maintenance, but the problem is that some buildings and systems are old and have not been upgraded or remodeled.

Senator Westwood noted that during the July 2005 review of the postsecondary education capital plans, facilities less than 30 years old were identified as needing to be replaced. Factors contributing to this need were poor design and inadequate maintenance. He said it would be a cost saver to have funding available for capital renewal.

After thanking Mr. Jackson for his presentation, Senator Westwood said the next meeting is expected to be scheduled for July at the KCTCS System Office facility in Versailles. Staff will follow up with members to determine the exact date. It was noted that members have also been provided a tentative schedule for other meetings and agendas for the remainder of 2006.

Senator Westwood announced there would be a tour of the Shelby Campus upon adjournment. There being no further business, on the motion of Representative Crimm, the meeting was adjourned at 12:05 PM.